Measuring the Macroeconomic Consequences for the US Economy and US Employment of Chairman Martin's Intercarrier Compensation and Universal Service Reform Plan

Prepared for the

Ad Hoc Telecommunications Users Committee

by

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Measuring the macroeconomic effects of Chairman Martin's ICC/USF Plan

- Increasing SLCs and other charges above cost, and shifting USF assessments to business customers, will cause a deadweight economic loss to society.
- A "deadweight loss" arises from an inefficiency in the market or, more specifically, from any deficiency that results from an inefficient allocation of society's resources – in this case increased telephone charges.
- When, as is the case with business telephone service, the product or service subject to the excessive price is an intermediate good that is itself utilized as an input to further downstream production, the macroeconomic impacts of the deadweight loss are compounded – *even where the downstream market is itself competitive*.
- The overall economic impact of the overpricing that will result from increasing business telecom charges can be measured using economic growth or contraction factors that show the effects on GDP and employment.
- An economic growth factor of 2.59 (i.e., for each $1 of increases above a competitive level, the economy will contract by $2.59) and a job creation factor of 0.0000235 (i.e., for each $1-million in increases, 23.5 jobs will be eliminated) are used below.

Measuring the macroeconomic effects of Chairman Martin's ICC/USF Plan

- The calculations of the macroeconomic impacts shown here use the same methodology and factors relied upon in *Special Access Overpricing and the US Economy: How Unchecked RBOC Market Power is Costing US Jobs and Impairing US Competitiveness*, prepared by Economics and Technology, Inc. (ETI) for the AdHoc Telecommunications Users Committee by Lee L. Selwyn, Susan M. Gately, Helen E. Golding, and Colin B. Weir, August 2007.
- This methodology uses a macroeconomic model developed by Paul N. Rappoport *et al*, *Macroeconomic Benefits from a Reduction in Special Access Prices*, June 12, 2003; *ex parte* Submission of the Special Access Reform Coalition (SPARC) in support of *AT&T Corp. Petition for Rulemaking to Reform Regulation of Incumbent Local Exchange Carrier Rates For Interstate Special Access Services*, RM Docket No. 10593 ("AT&T Study").
- Not considered in this analysis are the economic consequences arising from potential reductions in competition resulting from the cross-subsidization of RBOC competitive long distance services from the above-cost monopoly Subscriber Line Charges.

Assumptions

- Existing SLCs are at or near interstate-assigned cost.
- ILEC end user revenues are increased by $4.3-billion; residential SLC cap is increased by $1.50; balance comes from increases to business customers. An additional $1.3-billion in USF assessments is shifted to business customers.
- CLECs raise their SLCs or other prices dollar-for-dollar with the ILEC increases.
- Since flow-through of ICC savings to ILEC and CLEC customers is not being required, no flow-through savings are assumed.
- For purposes of this analysis, all rate adjustments are assumed to take effect in full as of January 1, 2009.
- No exogenous growth or contraction in demand for services subject to price increases, although the model assumes some endogenous reductions in demand resulting from the price increases.

Assumptions

Two alternative scenarios are examined:

1. **Considers the combined effect of $2.9-billion in ILEC Business price increases ($4.3-billion less ILEC Residential SLC increases of $1.4-billion) plus $1.3-billion in increased Business USF assessments.**

2. **Considers the combined effect of $2.9-billion in ILEC Business price increases plus $1-billion in dollar-for-dollar CLEC Business SLC (or equivalent) increases ($3.9-billion overall) plus $1.3-billion in increased Business USF assessments.**

The consequences of Chairman Martin's ICC/USF Plan for the US Economy

Scenario 1 **Economic Impact of $4.2-billion ILEC Business price increases relative to a no-rate-change base case**			
	2009	2010	2011
Impact on US GDP ($billions)			
Total Annual Impact on US GDP relative to base case	**-$8.6**	**-$10.8**	**-$10.0**
Cumulative Impact on US economy	**-$8.6**	**-$19.4**	**-$29.4**
Impact on US domestic employment			
Cumulative Impact on US Employment	**-48,000**	**-98,000**	**-97,000**

Increasing ILEC business revenues by $4.2-billion will produce a decrease in US GDP of $29.4-billion over three years and eliminate 97,000 US jobs.

The consequences of Chairman Martin's ICC/USF Plan for the US Economy

Scenario 2 **Economic Impact of $5.2-billion ILEC and CLEC Business price increases relative to a no-rate-change base case**			
	2009	2010	2011
Impact on US GDP ($billions)			
Total Annual Impact on US GDP relative to base case	**-$10.7**	**-$13.4**	**-$12.5**
Cumulative Impact on US economy	**-$10.7**	**-$24.1**	**-$36.5**
Impact on US domestic employment			
Cumulative Impact on US Employment	**-59,000**	**-122,000**	**-120,000**

Increasing ILEC and CLEC business revenues by $5.2-billion will produce a decrease in US GDP of $36.5-billion over three years and eliminate 120,000 US jobs.

Data Sources

Data Inputs			
	Business Switched Access Lines	Residential Switched Access Lines	SLC Increases on Residential Lines
ILEC	47,907,774	81,812,393	$1,472,623,074
CLEC	16,662,972	12,053,619	
Total	64,570,746	93,866,012	$2,874,466,440
(ILEC+CLEC)/ILEC %	135%	115%	

Data from FCC *Local Competition Report*, data as of 12/31/2007. SLC Increases on Residential Lines is calculated as the number of Residential switched access lines, multiplied by $1.50, by 12 months.

Data Sources

Data Inputs			
	Assumed Size of USF Fund	Residence Share	Business Share
USF contributions today under Revenue-based assessment mechanism	$7.6-Billion	$4.3-Billion	$3.3-Billion
USF Contributions Under Proposed $0.85 Residence Number Charge	$7.6-Billion	$3.0-Billion	$4.6-Billion
Change in assessment with a proposed $0.85	n/a	-$1.3-Billion	+$1.3-Billion
Source: Ad Hoc Telecommunications Users Committee November 19, 2007 ex parte at Table 5. AT&T September 23, 2008 ex parte at Table 2. AT&T estimates that there are approximately 300-million wireline and wireless residential numbers. The assessments above are calculated based upon this assumption, calculating the residential assessment (300-million x 12 x $0.85), and subtracting this value from the total to calculate the residual business share.			